

Message Text

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PAGE 01 TOKYO 11228 261135Z

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ACTION EA-09

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-01

INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06 SP-02

CIEP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 L-03 H-02 DODE-00 PA-02 PRS-01 /098 W

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P 260918Z JUL 76

FM AMEMBASSY TOKYO

TO TREASURY DEPT WASHDC PRIORITY

SECSTATE WASHDC PRIORITY 0000

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TREASURY FORR D. SYVRUD

E.O. 11652: N/A

TAGS: EFIN, JA

SUBJECT: JERC FORECASTS GRADUAL RECOVERY

REF: TOKYO 9896

1. SUMMARY: ECONOMIC FORECAST RECENTLY RELEASED BY PRESTIGIOUS JAPAN ECONOMIC RESEARCH CENTER (JERC) PROJECTS REAL GNP INCREASE OF 6.0 PERCENT FOR CY 1976 (SEE REFTEL. ACCORDING TO JERC, EXPORT GROWTH WILL BE ONLY STRONG SECTOR UNTIL PERSONAL CONSUMPTION AND BUSINESS INVESTMENT PERK UP IN FINAL QUARTER OF CY 1976. FORECAST, WHICH IS BASED ON JUDGMENTAL RATHER THAN FULLY SPECIFIED ECONOMETRIC MODEL, PROJECTS CY 1976 TRADE SURPLUS AT \$10.7 BIL WITH CURRENT ACCOUNT SURPLUS AT \$4.3 BIL. MODEL ALSO PROJECTS GRADUAL EASING OF WHOLESALE PRICE PRESSURES WITH ANNUAL INCREASE IN WPI LESS THAN 6.5 PERCENT DURING JULY 1976-MARCH 1977 FORECAST PERIOD WITH ANNUAL RISE IN CPI PROJECTED TO BE UNDER 10 PERCENT DURING MOST OF THIS PERIOD AND FALL BELOW 8 PERCENT IN LATE 1977 AND EARLY 1978. END SUMMARY.

UNCLASSIFIED

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PAGE 02 TOKYO 11228 261135Z

2. LATEST ECONOMIC FORECAST RELEASED BY JAPAN ECONOMIC

RESEARCH CENTER, NATION'S BEST-KNOWN PRIVATE FORECASTING UNIT, PROJECTS REAL GROWTH OF 6.7 PERCENT FOR CY 1976 WITH PRINCIPAL THRUST OF THIS INCREASE PROVIDED BY EXPORTS FOR MOST OF THIS YEAR. ALTHOUGH YEAR-OVER-YEAR GNP INCREASE IS ABOVE 6 PERCENT FOR EACH OF THE EIGHT QUARTERS OF 1976-77, INVESTMENT AND PERSONAL CONSUMPTION ARE EXPECTED TO RISE AT SLUGGISH PACE UNTIL LATE 1976 OR EARLY 1977. STRONG FIRST QUARTER 1976 RISE IN PERSONAL CONSUMPTION TO BE FOLLOWED BY PROJECTED STAGNATION IN SECOND AND THIRD QUARTER OF YEAR, ACCORDING TO JERC FORECAST. QUARTERLY INCREASE IN PERSONAL CONSUMPTION PROJECTED TO BE SMALLER THAN QUARTERLY INCREASE IN GNP UNTIL FIRST QUARTER 1977. PRIVATE PLANT AND EQUIPMENT INVESTMENT PROJECTED TO REGISTER STRONG INCREASE IN FINAL QUARTER OF 1976, BUT PRIVATE HOUSING (WHICH REGISTERED QUARTERLY INCREASE OF 12.3 PERCENT IN JAN-MAR 1976) WILL RECORD MORE MODEST GAINS IN LATTER HALF OF 1976 AND FIRST QUARTER 1977, ACCORDING TO JERC PROJECTION.

3. FOLLOWING TABLES SHOW JERC PROJECTIONS FOR INCREASES IN SEASONALLY ADJUSTED REAL GNP AND OTHER NATIONAL INCOME COMPONENTS TOGETHER WITH PROJECTED QUARTERLY MOVEMENTS OF PRICE (N.S.A.) AND INDUSTRIAL PRODUCTION INDICES (S.A.):
PERCENT CHANGE FROM PRIOR QUARTER

	1976				1977			
	I(A)	II	III	IV	I	II	III	IV
NOMINAL GNP			4.3	3.2	3.0	5.1	3.2	3.4 3.2 3.8
REAL GNP			3.5	0.9	1.3	2.4	2.0	1.7 1.6 1.9
PVT.CONSUMPTION			3.7	0.0	1.1	1.7	2.7	1.2 1.3 1.3
PVT. HOUSING			12.3	1.8	1.1	0.9	1.0	3.1 2.6 2.5
PVT. P & E			0.5	0.2	0.0	2.5	2.8	2.7 2.6 2.4
EX RECEIPTS(B)			9.0	3.6	0.2	2.8	2.4	2.1 2.0 1.3
IM PAYMENTS(B)			2.6	1.1	3.3	6.1	5.4	1.1 0.4 1.0
CPI			2.1	3.5	0.9	3.5	1.5	2.5 1.3 1.7
WPI			2.0	1.6	1.3	1.4	1.3	1.5 1.3 1.4
IND PROD			5.8	5.6	1.0	2.8	2.4	2.7 3.2 2.4

NOTES: A - FIRST QUARTER 1976 DATA IS ACTUAL DATA RELEASED BY EPA APRIL 1976 (REPORTED TOKYO 8299).

B - GNP BASIS: RECEIPTS (PAYMENTS) FOR EXPORTS (IMPORTS)
OF GOODS AND SERVICES PLUS FACTOR INCOME RECEIVED FROM
UNCLASSIFIED

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PAGE 03 TOKYO 11228 261135Z

(PAID) ABROAD)

4. JERC FORECAST FOR EXTERNAL SECTOR PROJECTS JAPAN'S TRADE SURPLUS FOR 1976 AT \$10.7 BIL, AND CURRENT ACCOUNT SURPLUS OF \$4.3 BIL. EXCEPT FOR PROJECTED STAGNATION IN EXPORTS DURING JULY-OCT 1976, VALUE OF EXPORTS GENERALLY EXPECTED TO ADVANCE AT 5 PERCENT EACH QUARTER. IMPORTS ARE PROJECTED TO REGISTER STRONG INCREASES IN FINAL QUARTER 1976 AND INITIAL QUARTER 1977.

ALTHOUGH CURRENT ACCOUNT IS PROJECTED TO REGISTER DEFICIT DURING JAN-MAR 1977, THIS PROJECTION OF A DEFICIT MAY UNDER STATE ACTUAL C/A STRENGTH SINCE ONLY TRADE BALANCE PORTION OF CURRENT ACCOUNT PROJECTIONS HAS BEEN ADJUSTED FOR SEASONAL VARIATION. SERVICES AND TRANSFERS COMPONENT OF CURRENT ACCOUNT NORMALLY REGISTERS LARGE DEFICIT IN FIRST EQUARTER OF EACH YEAR.

5. FOLLOWING TABLE SHOWS BALANCE OF PAYMENTS PROJECTIONS IN BILLIONS OF CURRENT DOLLARS BY QUARTERS FOR 1976 AND FIRST TWO QUARTERS 1977 (LAST PERIOD IN JERC PROJECTION):

	1976				1977			
	IA	II	III	IV	I	II		
EXPORTS (S.A)	15.7	16.1	16.1	17.1			18.0	18.7
IMPORTS (S.A)	13.0	12.8	13.4	15.1			16.2	16.3
TRADE BAL(SA)	2.7	3.3	2.7	2.0			1.8	2.3
SERVICES AND								
TRANSFERS(NSA)	-1.6	-1.6	-1.4	-1.7			-2.3	-1.7
CURR ACCT								
("SA")	1.1	1.6	1.3	0.3			-0.5	0.6

NOTE: DIFFERENCES OF CERTAIN ITEMS MAY NOT MATCH BALANCES DUE TO ROUNDING.

6. JERC FORECAST IS BASED ON JUDGMENTAL MODEL IN WHICH "SUCCESSIVE APPROXIMATION PROCEDURE" IS USED. MOVEMENTS OF INDIVIDUAL INDICATORS IN SPECIFIC ECONOMIC SECTORS ARE USED TO DRIVE A "PROVISIONAL ESTIMATE" OF OVERALL DEVELOPMENTS IN THE ECONOMY FOR A GIVEN QUARTER. PROVISIONAL ESTIMATE IS THEN CHECKED TO SEE IF IT MEETS CERTAIN CONSTRAINTS (BALANCED INVESTMENT-SAVINGS RELATIONSHIP, AND BALANCED DEMAND-SUPPLY RELATIONSHIP FOR MAJOR SECTORS) AND IS COMPARED WITH FORECAST DERIVED BY EXPLICIT ECONOMETRIC UNCLASSIFIED

UNCLASSIFIED

PAGE 04 TOKYO 11228 261135Z

PROJECTION. JERC FORECAST IS NOT DERIVED FROM COMPLETELY SPECIFIED ECONOMETRIC MODEL. HOWEVER, JUDGMENT OF JERC STAFF, WHO HAVE A CLOSE WORKING RELATIONSHIP WITH EPA AND OTHER GOJ OFFICIALS, IS HIGHLY RESPECTED BY BOTH GOJ AND PRIVATE INDUSTRY FORECASTERS. SHOESMITH

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC RECOVERY, ECONOMIC TRENDS, ECONOMIC DATA
Control Number: n/a
Copy: SINGLE
Draft Date: 26 JUL 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976TOKYO11228
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760286-0869
From: TOKYO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760720/aaaaarkk.tel
Line Count: 160
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EA
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: 76 TOKYO 9896
Review Action: RELEASED, APPROVED
Review Authority: hackerp0
Review Comment: n/a
Review Content Flags:
Review Date: 27 FEB 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <27 FEB 2004 by ThomasVJ>; APPROVED <06 JAN 2005 by hackerp0>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: JERC FORECASTS GRADUAL RECOVERY
TAGS: EFIN, ECON, JA, JERC, JAPAN ECONOMIC RESEARCH CENTER
To: TRSY
STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006